Blackstone First Quarter 2024 Investor Call
April 18, 2024 at 9:00am ET

Weston Tucker: Good morning and welcome to Blackstone's first-quarter conference call. Joining today are: Steve Schwarzman, Chairman and CEO; Jon Gray, President and Chief Operating Officer; and Michael Chae, Chief Financial Officer. Earlier this morning, we issued a press release and slide presentation, which are available on our website. We expect to file our 10-Q report in a few weeks.

I'd like to remind you that today's call may include forward-looking statements which are uncertain and may differ from actual results materially. We do not undertake any duty to update these statements. For a discussion of some of the factors that could affect results, please see the "Risk Factors" section of our 10-K. We'll also refer to non-GAAP measures and you'll find reconciliations in the press release on the shareholders page of our website.

So on results quickly: We reported GAAP net income for the quarter of $1.6 billion. Distributable earnings were $1.3 billion, or $0.98 per common share, and we declared a dividend of $0.83, which will be paid to holders of record as of April 29th.

With that, I'll turn the call over to Steve.

Steve Schwarzman: Good morning and thank you for joining our call.

Blackstone reported strong results for the first quarter of 2024, including healthy distributable earnings of $1.3 billion as Weston mentioned, underpinned by the highest fee related earnings in six quarters. On our January earnings call, following a volatile multi-year period for global markets, we noted an improving external environment and shared our view that 2023 would be the cyclical bottom for our firm. While changing market conditions take time to translate to financial results, including realizations and performance revenues – we are seeing positive momentum across many key forward indicators at our firm. Inflows were $34 billion in the first quarter and $87 billion over the past two quarters. We invested $25 billion in quarter one and $56 billion in the past two quarters, with a strengthening pipeline of new commitments. We are planting the seeds of future value at what we believe is a favorable time for deployment.

At the same time, our fundraising in the private wealth channel meaningfully accelerated in the first quarter. Sales for our perpetual vehicles increased more than 80% from the fourth quarter, to $6.6 billion. We've stated before that short-term movements in stock and bond markets impact capital flows in this channel – but ultimately flows follow performance, as well as innovation, as we are seeing now. We've delivered 10.5% net returns annually for BREIT's largest share class over more than seven years, and 10% for BCRED over three-plus years. And we continue to successfully launch new strategies, including our private equity vehicle, BXPE, in the first quarter. With $241 billion of AUM in private wealth at Blackstone, we have the leading platform in our industry by far. We've established a significant first-mover advantage, with the number-one market share for each of our major, seasoned products along with a high percentage of repeat business across strategies.

Blackstone is built on long-term investment performance. We've achieved 15% net returns annually in corporate private equity and infrastructure since inception; 14% in opportunistic real estate and secondaries; 12% in tactical opportunities; and 10% in credit. In the first quarter, our funds reported steady appreciation overall, highlighted by strength in infrastructure, credit and our multi-asset investing platform "BXMA". Our portfolio is in excellent shape, and our limited partners continue to benefit from the way we've positioned their capital, emphasizing good neighborhoods such as digital infrastructure, logistics and energy transition. The firm's thematic approach to deployment is informed by the real-time data and insights we gather from our global portfolio, which help us to identify trends early and build conviction around our ideas. Blackstone is the largest and most diversified firm in the alternatives area, with over $1 trillion of assets under management - and we believe our knowledge advantage consequently is a unique asset in our industry.

For example, digital infrastructure – one of the firm's highest-conviction investment themes today – is a powerful example of this knowledge advantage at work. Just as we recognized the rise of e-commerce nearly fifteen years ago and started buying warehouses, we anticipated a paradigm shift around demand for data centers, driven by growth in content creation, cloud adoption and most importantly now, the revolution underway in artificial intelligence. Others now know that AI requires exponentially more computing power and capacity than was previously imagined. On a personal basis, in less than two weeks I am participating in the dedication ceremony for the Schwarzman College of Computing at MIT, which will be heavily focused on this area. What has Blackstone done with our conviction? We identified QTS, the fifth-largest U.S. data center REIT, as a well-positioned but poorly trading public company with tremendous long-term potential. Our BREIT, BIP infrastructure and BPP perpetual strategies acquired the company for $10 billion in 2021, and its leased capacity has already grown six-fold in less than three years. Today, QTS is the largest data center company in North America.

We are building a variety of other data center platforms around the world as well. In total, Blackstone vehicles now own $50 billion of data centers globally, including facilities under construction. And there is an additional $50 billion in the prospective future development pipeline. Blackstone is highly differentiated in our ability to conceptualize a new business area and transform it into a $100 billion potential opportunity. We are also actively investing in other companies in AI-related areas. We are buying, as well as financing, several firms that design, build and service data centers. We recently financed a cloud infrastructure business supporting AI development. And now we've transitioned to addressing the sector's growing power needs, leveraging our sizeable energy infrastructure platform, which includes the largest private renewables developer in North America.

There are several other powerful megatrends that we expect to drive the firm forward, both in terms of where we invest and where we raise capital. The most compelling of these today include: the secular rise of private credit, where we have one of the world's largest platforms; infrastructure; energy transition; life sciences; and the expansion of alternatives globally, in particularly in Asia. In each of these areas, we've established leading platforms with tremendous momentum.

Looking forward in 2024, the market environment will remain complex. The economy is stronger than expected but is starting to slow a bit. In terms of inflation, despite the recent U.S. CPI readings, we're seeing decelerating wage growth and minimal input cost increases across many of our companies. In real estate, we see shelter costs moderating, contrary to government data. We believe inflation will trend lower this year, although the pace of decline has slowed recently. Geopolitical turbulence, including wars in the Middle East and Ukraine, adds further uncertainty to the business environment. And 2024 is a major election year, as we all know, with nearly half of the world's population going to the polls, which injects unpredictability around the future of important policies that impact the global economy.

Blackstone is well positioned against this evolving backdrop. Our portfolio is concentrated in compelling sectors, and we have the industry's largest dry powder balance of nearly $200 billion to take advantage of opportunities. Our long-term capital provides the flexibility and firepower to invest, while affording us the patience to sell assets when the time is right. The firm itself could not be in a stronger position, with minimal net debt and no insurance liabilities, allowing us to distribute $4.7 billion to shareholders over the past twelve months through dividends and share repurchases. And we are in the early days of penetrating markets of enormous size and potential.

With that – I'll turn it over to Jon.

Jon Gray: Thank you, Steve, and good morning everyone.

We are pleased with the firm's performance in the first quarter and the momentum building across our business. This momentum is underpinned by three key developments: first, the transaction environment has strengthened; secondly in private credit, demand from both investors and borrowers is expanding; and third, our private wealth business is reaccelerating. I'll discuss each of these areas in more detail.

Starting with the transaction environment. The market backdrop has become more supportive. The 10-year Treasury yield is still down from its October peak (despite the recent run up), borrowing spreads have tightened significantly and the availability of debt capital has increased significantly. We're also seeing M&A activity and the IPO market restarting.

As we've stated before, the recovery will not be a straight line, but we're not waiting for the all-clear sign to invest. We deployed $25 billion in the first quarter and committed an additional $15 billion to pending deals, including subsequent to quarter end. We were most active in our credit and insurance area, which I'll discuss further in a moment. In real estate, we shared our view in January that commercial real estate values were bottoming, providing the foundation for an increase in transaction activity. This has coincided with several major investments by Blackstone. Just last week, we announced the $10 billion take-private of high-quality rental housing platform "AIR Communities," which follows our announcement in January to privatize Tricon Residential. Rental housing remains a major investment theme for us given the structural shortage in this space – the U.S. is building roughly the same number of homes today as in 1960, despite having almost twice the population. We are also quite focused on European real estate, where we've now raised $7.6 billion for our new flagship vehicle as of quarter end.

In private equity, we closed the acquisition of Rover in the first quarter – a leading digital marketplace in the pet space – along with an online payments business in Japan and a healthcare platform in India. The economy in India, which I visited two weeks ago, remains incredibly strong. We're fortunate to have what we believe is the largest private equity and real estate platform in that country. Back home, our dedicated life sciences business announced a $750 million collaboration with Moderna to support the development of mRNA vaccines for influenza. And our growth equity fund invested in 7-Brew, an innovative quick-service coffee franchisor. As Steve highlighted, we are planting the seeds of future realizations.

Turning to the second key development – our expansion in private credit. There is powerful innovation underway in the traditional model of providing credit to borrowers. Our corporate, insurance and real estate debt businesses comprised over 60% of the firm's total inflows in the first quarter, and nearly 60% of deployment. We continue to see strong interest in non-investment grade strategies such as opportunistic, direct lending and high-yield real estate lending. We're also now seeing a dramatic increase in demand from our clients for all forms of investment grade private credit, including: infrastructure, particularly in energy transition and digital infrastructure; residential real estate; commercial and consumer finance; fund finance; and other types of asset-based credit.

In our investment grade-focused business, we believe there is a massive opportunity to deliver higher returns to clients with lower risk, by moving a portion of their liquid IG portfolios to private markets. Alternatives have taken meaningful share of public equity portfolios over the past thirty years, but little on the fixed income side. In the insurance channel, this migration has been underway, and we've created a capital-light, open architecture model that can serve a multitude of LPs. Worth noting, we crossed the $200 billion AUM milestone in insurance this quarter, up 20% year over year. In addition to our four largest clients, we now have SMA relationships with 14 insurers, which continue to grow in number and size. We placed or originated $14 billion of A-rated credits on average for them in the first quarter – up 71% year over year – and nearly $50 billion since the start of 2023. These credits generated approximately 200 basis points of excess spread over comparably rated liquid credits.

In addition to insurance clients, pension funds and other LPs see the value we're creating in private credit, and there has been a strong response to our product offerings. With nearly $420 billion in BXCI and real estate credit, we are extremely well positioned to directly originate high-quality assets on behalf of a much larger universe of investors. We've also established numerous origination relationships as well as bank partnerships – most recently with Barclays and Key Bank – in areas like consumer credit card receivables, fund finance, home improvement and infrastructure credit. And we plan to add more. These arrangements are a "win/win": they create more flow for our investors who want to hold these assets long term; and they help our partners better serve their customers. We expect our credit and insurance platforms to grow significantly from here.

Moving to the third key development – the reaccelerating trends in our private wealth business. In January, we noted our momentum building as market volatility receded. And with the launch of BXPE, we now offer three large-scale perpetual vehicles, providing individual investors access to even more of the scale and breadth of Blackstone. Our sales in the wealth channel were a robust $8 billion in the first quarter, including $6.6 billion for the perpetual strategies as Steve noted. Subscriptions for the perpetuals increased 83% from Q4 and marked the best quarter of fund-raising from individuals in nearly two years. BCRED led the way, raising $2.9 billion. BXPE has received very strong investor reception, raising $2.7 billion in its debut quarter, and we plan to expand to more distributors over the coming months. Over 90% of advisors that have transacted with BXPE have previously done so with BREIT or BCRED, illustrating the affinity for our products and the power of the Blackstone brand in this channel.

At the same time, BREIT has successfully navigated a challenging two-year period for real estate markets. Its semiliquid structure has worked as designed, by providing liquidity while protecting performance. BREIT has delivered double the return of the public REIT index since inception over seven years. This outperformance continued with strong results in Q1, underpinned by outstanding portfolio positioning that includes growth in its data center exposure. Repurchase requests in BREIT have fallen 85% from the peak to the lowest level in nearly two years, and the vehicle is no longer in proration. We're now seeing encouraging signs in terms of new sales, while repurchase requests are continuing their decline in April as well. We are confident in the recovery of BREIT flows over time given performance. When looking at the $80 trillion private wealth landscape overall, allocations remain extremely low, and we expect a long runway of growth ahead.

In closing, the firm is exceptionally well positioned, supported by both cyclical and secular tailwinds. That's why we believe the future is very bright for Blackstone.

With that, I'll turn things over to Michael Chae.

Michael Chae: Thanks Jon, and good morning everyone.

The firm delivered strong results in the first quarter, highlighted by the reacceleration of fee related earnings. I'll first review financial results and will then discuss investment performance and the forward outlook.

Starting with results. Fee related earnings increased 12% year over year to $1.2 billion, or $0.95 per share – the highest level in six quarters, and the third-best quarter in firm history – powered by double-digit growth in fee revenues coupled with the firm's robust margin position. With respect to revenues – the firm's expansive breadth of strategies lifted management fees to a record $1.7 billion. Notably, Q1 reflected the 57th consecutive quarter of year over year growth of base management fees at Blackstone. Fee related performance revenues doubled year over year to $296 million, generated by multiple perpetual capital vehicles in credit and real estate, including: a steadily growing contribution from our direct lending business; a scheduled crystallization in our European BPP logistics strategy; and BREIT. The set up for these high-quality revenues is favorable in 2024 and beyond, which I'll discuss further in a moment. With respect to margins – FRE margin was 57.9% in the first quarter, in line with full-year 2023.

Distributable earnings were $1.3 billion in the first quarter, or $0.98 per common share – stable year over year and underpinned by the growth in FRE. Net realizations remained muted at $293 million, and going forward we expect a lag between improving markets and a step up in net realizations. In the meantime, the firm's strong underlying FRE generation has supported a consistent and attractive baseline of earnings, with Q1 representing the tenth consecutive quarter of FRE over $1 billion.

We did execute a number of sales in the quarter, including a stake in one of the largest cell tower platforms, public stock of the London Stock Exchange group, and the sales of certain other public and private holdings. We also closed or announced several dispositions in our real estate and infrastructure perpetual vehicles which, as a reminder, do not earn performance revenues based on individual asset sales, but on NAV appreciation. These included: a trophy retail asset in Milan for 1.3 billion Euros, representing the largest real estate single asset sale ever in Italy; a portfolio of warehouses in Southern California; and a prime office building in Seoul. Each of these sales generated a substantial profit individually; and in aggregate, a gross multiple of invested capital of approximately two times. These dispositions exemplify the significant quality and embedded value within the firm's investment portfolio.

Turning to investment performance. Our funds generated healthy overall appreciation in the first quarter, as Steve noted. Infrastructure led the way, with 4.8% appreciation in the quarter and 19% over the last twelve months, with broad gains across digital, transportation and energy infrastructure. The QTS data center business was the single largest driver of appreciation for BIP, BREIT and BPP US, and for the firm overall in Q1. The commingled BIP vehicle has generated 15% net returns annually since inception, powering continued robust growth, with platform AUM increasing 22% year over year to $44 billion. The corporate PE funds appreciated 3.4% in the quarter and 13% for the LTM period. Our operating companies overall reported healthy, albeit decelerating, revenue growth along with margin strength.

In credit, we reported another outstanding quarter in the context of strong fundamentals in debt markets generally and tightening spreads, with a gross return for the private credit strategies of 4.1% and 17% for the LTM period. The default rate across our nearly 2,000 non-investment grade credits is less than 40 basis points over the last twelve months, with zero new defaults in our private credit business in Q1. Our multi-asset investing platform, BXMA, reported a 4.6% gross return for the absolute return composite and 12% for the last twelve months – the best quarterly performance in over three years and the 16th quarter in a row of positive returns. Since the start of 2021, the composite has delivered nearly double the return of the "60/40" portfolio, net of fees – a remarkable result in liquid markets.

Finally, in real estate, the Core-Plus funds appreciated 1.2% in the first quarter, while the BREP opportunistic funds appreciated 0.3%. These returns included the negative impact of currency translation for our non-U.S. holdings related to the stronger U.S. dollar, equating to 20 and 60 basis points impact on each strategy, respectively. As Jon noted, we see a recovery underway in commercial real estate; and in our portfolio, cash flows are growing or stable in most areas.

Overall, strong returns lifted net accrued performance revenue on the balance sheet – the firm's "store of value" – sequentially to $6.1 billion, or $5 per share. Meanwhile, performance revenue eligible AUM in the ground increased to a record $515 billion. The resiliency and strength of the firm's investment performance, over many years and across cycles, powers the Blackstone innovation machine and provides the foundation of future growth.

Moving to the outlook, where several embedded drivers support a favorable multi-year picture of growth. First, the firm has raised approximately $80 billion that is not yet earning management fees, in new drawdown fund vintages that haven't yet "turned on" along with certain other funds. Fees will commence when investment periods are activated or capital is deployed, depending on the strategy. We plan to activate our corporate private equity flagship this quarter – which has raised over $19 billion to date – followed by an effective four-month fee holiday. We expect to activate several other drawdown funds over the balance of the year, followed by respective fee holidays.

Second, our platform of perpetual strategies has continued to expand, now comprising 45% of the firm's fee earning AUM. As a reminder, our private wealth perpetual vehicles – including BREIT and BCRED – generate fee related performance revenues quarterly, as will BXPE starting in Q4 of this year. Our institutional strategies – BPP in real estate and BIP in infrastructure – generate these revenues on multi-year schedules, with a sizeable crystallization for the commingled BIP vehicle scheduled to occur in Q4 of this year, with respect to three years of accrued gains. Third, our investment grade-focused credit business is on a strong positive trajectory, as Jon highlighted, and we expect $25 to $30 billion of inflows again this year from our four major insurance clients alone.

In closing, the firm is moving forward in a position of significant strength. Our momentum is accelerating in key growth channels and our underlying earnings power, emerging from this period of hibernation, continues to build. We have great confidence in the outlook for the firm.

With that, we thank you for joining the call and would like to open it up now for questions.

Moderator: Thank you. As a reminder, please press star one to ask the question. We ask you limit yourself to one question to allow as many questions as possible. We'll go first to Michael Cyprys with Morgan Stanley.

Michael Cyprys: Hi. Good morning and thanks for taking the question. Wanted to dig in on infrastructure. The platform continues to build. I heard $44 billion AUM. Strong returns – 15% net. Maybe you could just update us on the platform build out, the initiatives here that can help accelerate growth, as it seems like this is a tremendous market opportunity out there. Just curious what you see as the gating item on seeing this business, multiples of the size. Maybe talk about some of the steps you're taking around expanding your origination funnel in infrastructure, and as well as expanding the vehicles for capital raising across the return spectrum and customer sets globally. Thank you.

Jon Gray: Thank you, Mike. Infrastructure is clearly an area with a lot of potential for us. As a reminder, our program is less than six years old at this point. And we're already at $44 billion.

The key, like building everything we do, is delivering performance for the customers. Sean Klimczak and the team have delivered 15% net returns since inception in an open-ended vehicle, which is different than many of the other players in the space. We think that is a very powerful model because it allows us to partner with other long-term holders, and it matches the duration of the capital to long duration infrastructure. We position the business in three big areas: transportation infrastructure coming out of Covid, energy and energy transition – obviously a very important area today for a whole host of reasons – and then digital infrastructure, which Michael pointed out has been the biggest driver of value both in real estate and in infrastructure and across the firm in this most recent quarter. So we think we've done a really exceptional job deploying the capital. We have a lot of clients who are quite pleased. I think the base business can grow, and I think there are opportunities geographically to expand this. Our current fund is focused primarily on the U.S., but we've done a number of large things in Europe, and I think there's opportunities in infrastructure in both Europe and Asia over time. And it's an area that, we have real strength. I would add to the mix infrastructure credit, something we're doing as well. And interestingly, when you think about what we're doing for insurance clients, what we have in infrastructure and things like digital infrastructure, green energy, it's very helpful for investment grade debt as well given our insights and relationships. So this is an area where we're still seeing investors showing a lot of enthusiasm. I think it will continue to be a growth area on the back of what we built. I think we can create other products and we see this growing to be, I think as we've talked about in previous calls, a triple digit AUM business.

Michael Chae: And Jon, I'd just add and I think you might agree that I think if you step back, Mike, you could analogize that sort of the multi-decade growth path of real estate, that business overall with respect to another area of real assets, infrastructure, and that is geographic/regional expansion, expansion up and down the risk return spectrum, across asset classes between equity and debt, and also serving different customer channels, whether it's retail, insurance or institutional. So that's another way to dimension it.

Michael Cyprys: Great. Thank you.

Moderator: Thank you. We'll go next to Craig Siegenthaler with Bank of America.

Craig Siegenthaler: Good morning everyone. My question is on real estate. So with deployments picking up with both the Tricon and Apartment Income take-privates, and Jon, I heard your comments earlier this morning, but it sounds like the Blackstone house view is that the work from home and interest rate hit are now baked into cap rate. So given all this, can you comment on where we are in the investing cycle, via dry powder at BREP, BPP and BREIT. And I also wanted your perspective on returns now that BREIT is back above its pref putting 2Q in a better position for FRPR.

Jon Gray: Sure, Craig. You know, as we've talked about and you noted, there have been two big headwinds here: one in the office sector, specifically in the U.S., where we have very little exposure to the impact of remote work and also capital needs in older office buildings. The second thing is just been the movement upward in interest rates and the rise in spreads that happened. And both of those, I believe, peaked back in October. And that, you know, has really worked its way through the market. Interestingly, of course, they'll still be plenty of challenging headlines from assets that were financed in a different environment as they work their way through the system. And that sort of, it's almost as if something happened to a ship at sea and then it comes ashore. We saw this after the financial crisis where real estate values bottomed in that summer of ’09 but you had negative headlines in real estate for the next three years. We spent a lot of that time, of course, deploying capital into that dislocated period where people were still cautious. What gives us confidence as we look forward here is one is this reduction in cost of capital. We've obviously seen spreads tighten a fair amount, probably 125 basis points in CMBS in the first quarter and through the end of the fourth quarter last year. We also saw CMBS issuance go up five-fold, versus the first quarter of 2023. So that, and the fact that the Fed at some point here will be bringing rates down and that's important as well. The other thing I'd add is on the supply front. We've seen in logistics, an 80% decline in new starts, we've seen in, multifamily, a 50% decline from peak starts as well. And so, that starts to lay the groundwork. In terms of timing, I would think about this period of time as a time of seed planting, that you want to be investing into this dislocation. Because there's a lot of uncertainty, there may be forced sellers, there may be public companies trading at discounts. And then over time, as things start to normalize, you start to accelerate on the realization. But first, I think it's a deployment period. Then the realization period as you move out, similar to that post GFC period. That’s certainly the way we're playing it and in terms of capital, we obviously have a very large $30 billion global fund. We said we've raised over seven and a half in Europe. We have most of our eight plus billion-dollar Asia fund still uninvested so a lot of opportunistic capital to deploy. So, we're forward leaning as it relates to deployment, even though we recognize there's still going to be a lot of assets from a previous period working their way through the system.

Moderator: Thank you. We'll go next to Alex Blostein with Goldman Sachs.

Alex Blostein: Hey. Good morning everybody. Thank you for the question. My question is around BXPE, really strong momentum out of the gate. Obviously $2.7 billion that you guys highlighted this quarter and over the last couple of months. What's the vision for this product? I guess, in terms of both capacity and maybe the appropriate size for the strategy, as well as the pace at which you feel comfortable taking in inflows. I don't want to draw too much parallel with BREIT, obviously a very different product, very different customer base. But thinking of that one, I think peaking at north of $70 billion, how do you think about the size and opportunity for BXPE?

Jon Gray: Well, I think it's a great question, Alex. One of the things we did when we designed BXPE was to make the platform as broad as possible, so that we could scale the product and we could be flexible on behalf of investors in terms of where we deployed it. So, control large scale private equity is part of it. U.S., Europe, Asia is part of it. Tactical opportunities, more hybrid equity, part of it. Life sciences, growth, part of it. Secondaries infrastructure, some opportunistic credit. It's a very broad platform and it enables us to deploy a lot. One of the advantages of Blackstone is just our scale and the amount of deal flow we see across all these different areas, and particularly our connectivity with many other sponsors in the private equity space through our secondaries, our credit business, our GP Stakes business. We can be great partners to those folks. Obviously, we can manufacture a lot of transactions ourselves, so we think the potential scale here is quite large. You pointed out BREIT’s scale. We're over 30 billion of equity, nearly 60 billion of assets in BCRED. We think this can grow a lot. The key is we have to deliver strong performance to the underlying customers. We have to be disciplined in how we deploy capital and thoughtful. I think we've been doing that. I think we'll continue to do that. And that's what gives us a lot of confidence, which is investors want exposure to private equity. Individual investors want a little bit, excuse me, of a different structure. And that's why I think BXPE is so attractive. So, I think as we come out of this period of the last two years where there's been a lot of caution and negativity, as market sentiment improves, as we show the strong performance from our other individual investor products, I think there's a potential here of pretty good size. Again, we've got to do a good job deploying capital, but I've got a lot of confidence, particularly given the breadth of the platform. So the short answer is I think this can grow to be much larger than it is today.

Weston Tucker: Thanks, Alex.

Moderator: Thank you. We'll go next to Dan Fannon with Jefferies.

Dan Fannon: Thanks. Good morning. Michael, last quarter, the message for this year on margins was stability. The first quarter was flat with last year. As you think about the momentum in the business that you highlighted in the prospects for growth and growth in AUM, how are you thinking about margins as you think about the rest of the year?

Michael Chae: Thanks, Dan. Yeah, I think my message is, you know, it's consistent. First of all, in terms of the actual result, as you noted in the first quarter, quite stable, quite consistent, quite in line with, both the first quarter a year ago in the full year 2023. I think, as always, we guide people to look not in individual quarters, but at sort of on a full year basis. And I think on that basis, we would again, encourage people to think about this, reinforce margin stability as a guidepost. And then again, consistent with our message over a long time, on a longer term basis, we do think there's operating leverage built into our model. We obviously actively manage our cost structure. And we think long term it's a robust margin position that will scale and leverage over time. So, back to where we started. I would reinforce margin stability as the message, and over the long term feel optimistic about the ability to increase them.

Weston Tucker: Thanks, Dan.

Moderator: Thank you. We'll go next to Glenn Schorr with Evercore ISI.

Glenn Schorr: Hello there. I got a question to peel back the onion a little bit on this commentary on bank partnerships. So, when we watch you do something like Barclays where you're taking a credit card book and give it to your insurance clients that makes sense to us. That's like a cash transaction. It's tangible. So we read a little more about the rising of synthetic risk transfer trends. And I'm just curious, that's something that's obviously harder for us to follow. Gives us shivers. Remind us about 15 years ago. Curious for your thoughts on how much SRT is going on in the industry, how much you do, and maybe you can talk about what type of partnerships you envision going forward. Thanks.

Jon Gray: Thanks, Glenn. SRTs are an area where we're very active. I think we're the market leader today in terms of working with our bank partners. For them, these are, capital relief transactions, as you know, we're you're sharing in or taking first loss positions. We've been doing this with a variety of banks who are highly credit worthy institutions. One of the advantages we have is the strength we have across asset ownership and also corporate and real estate credit. So if we do these with bank partners, we can go through them in detail. The most active area has been subscription lines to date, which as you probably know, subscription lines to private equity firms have had virtually no defaults over the last 30, 40 years so we like that area. When we work in investment grade, or non-investment grade, much of it's been around revolvers, which historically have had much lower loss ratios. And we're able to go through these portfolios and look at the credits we're taking. We do this, of course, not as Blackstone, but on behalf of our investors in various vehicles and funds. The returns, we've been doing this, by the way, for a number of years. And I just think our ability to look at the underlying credit, as opposed to just make a macro call, is our competitive advantage and our ability to do this in scale with the bank. So I see this as a "win-win". It helps banks with some of the Basel pressure, balance sheet pressures they have and we're able to generate favorable returns. So I think this is a very good thing for the system overall. I think we're doing it in a quite responsible way. Our team is very experienced in how they execute these transactions.

Moderator: Thank you. We'll go next to Crispin Love with Piper Sandler.

Crispin Love: Thanks. Good morning. In recent weeks, there's definitely been a shift in the rate outlook as we're likely in a higher for longer scenario which is very different than just three months ago. So can you just talk a little bit about how that might impact your outlook for investment activity and putting dry power to work going forward? And then just how it might shift the areas where you're most excited about deploying capital?

Jon Gray: Well, I do think it extends the investment window a bit for our $191 billion of dry powder. I think, you know, as people were getting closer to anticipating rate cuts, you saw big rallies, in both equity and debt markets and that can make it a little bit tougher to deploy capital. In some ways it's helpful for financings, but it also can drive prices up. From our perspective, because we're buying assets so often for longer periods of time, the fact that a rate cut may happen 90 days or 180 days later is not really a long-term negative. And if anything, it allows us to get into some assets at more favorable pricing. So, the way I would think about it is it extends out the deployment period. It may slow some of the realizations and push them out a bit as well. But when we think about delivering value for our customers, we see it as a positive. Obviously, for businesses like our credit business, which is mostly floating rate, it enhances returns for our underlying customers. I do think it's important to note that unlike October and the end of the summer when rates moved and spreads really gapped out, we haven't seen that accompanying change. So, markets seem to be in a much healthier spot. But I do think it probably prolongs the investment window here. And as we keep saying, we're not going to wait for the all clear sign. You saw a big ramp up. We had 25 billion of deployment in the quarter. And I think in terms of commitments and then as of quarter end plus beyond the quarter end, we have another $15 billion that's committed. So you're seeing us move. We did our first deal in growth in quite some time. Real estate we've talked about, we've obviously accelerated there. In our secondaries business, the pipeline of deals we're looking at is about 2x where it was 90 days ago. So we're seeing a pickup in activity. It won't be everywhere, but I do think it creates more of a chance for us to deploy capital at prices we find attractive.

Weston Tucker: Thank you.

Moderator: Thank you. We'll go next to Brian Bedell with Deutsche Bank.

Brian Bedell: Great. Thanks. Good morning folks. Maybe just to take a moment to add on to that question on that piece of deployment in two specific areas of real estate and credit. Just going back to the comment you just made, Jon, about extending the period. But does that make you sort of more excited about potential opportunities given that the, you know, extension of the period that could depress prices in real estate and, you know, with the massive dry powder, especially in real estate, you know, could that bring that level of deployment back up to sort of prior year levels in the high mid-to-high $40 billion ranges? And then, just secondarily in private credit, a little different dynamic with less dry powder but more fundraising. So, I guess same question there – do you think you can get back up to sort of similar types of record levels in the mid-to-high 40 billions say for 2024 for deployment?

Jon Gray: Brian, it's hard to put numbers on things. I'll talk about it directionally. I do think, when rates go up, the market tends, the public markets tend to move much more than what we see in the private markets. So for real estate, I do think that creates more opportunity for scalable deployment as some of those stocks move off, particularly if the debt market hangs in there and so that disconnect can create opportunity. We've seen a pick up in Europe in real estate as well, some of that relating to distress. And there's very negative sentiment, even though the fundamentals on the ground are actually pretty good in our chosen sectors. And we're seeing overall, in Europe, you know, I think there we'll see rates come down more quickly than the U.S., which is helpful. So short answer, yes on it should help real estate deployment. On private credit, we've got a lot of momentum, particularly in the investment grade and asset-backed area. That's where we're probably most active right now. The need for capital around digital and energy infrastructure are enormous. The needs for power, tied to digital infrastructure, but also electrification of vehicles, reshoring, very significant. And there's going to be a huge need for capital so we see that almost regardless of the interest rate environment. I do think on the direct lending side, we've seen some spread tightening. Rates coming down will be helpful to see deal activity and I think at that point we'll see a pickup. But regardless, our pipeline and credit, both on the investment grade and non-investment grade side, is accelerated. So it's hard to say exactly how this happens. But we feel good about the momentum in deployment, and I use my very scientific briefcase indicator: how many investment memos I'm taking home over a weekend. And it's definitely been trending up so I think that bodes well. It's hard to predict exactly how it manifests itself, but it feels like certainly this will be a more active year than last year for deployment.

Brian Bedell: Okay. That's helpful. Thank you.

Moderator: Thank you. We'll go next to Ken Worthington with JP Morgan.

Ken Worthington: Hi. Good morning. Looking into BPP, net accrued performance revenue 73 million, I assume down on this quarter's crystallizations, but IRRs are down to 6%, which I think is below the hurdle rate there. I know BPP is a collection of fund and investments, like BioMed and Mileway. What needs to happen here for returns to recover and accrued performance fees to build, in to what I think are big crystallizations anticipated for next year?

Jon Gray: So, Ken, you pointed it out correctly. It's a bunch of different vehicles with different hurdle rates and different performance, some of which obviously at higher levels, some at lower levels. You know, it feels to us, as we've been talking about, that, you know, real estate, has moved towards this lower ebb. And it's fortunately a cyclical business, right. You know, when you stop building new supply as the cost of capital comes down, you get a recovery and you can look back over time to the early '90s, after the 2001 downturn, certainly after the GFC. The great thing is these are long duration vehicles. The capital is going to stick with us for quite some time, and ultimately, we'll get other opportunities when these crystallization events come up. And so I would say, the fact that we think we're positioned in some really good sectors, really good geographies, we have big exposure to logistics, in Europe in particular, we've got some really high quality. We have data centers in some of our investment vehicles here as well. I would say overall, it's a combination of the quality of what we own and the sentiment in the sector improving. And when that happens, we'll get these, unrealized performance fees that happen on a regular basis. So to me, it's a matter of time. It goes to the larger issue of a large portion of our earnings in hibernation. The fact that we're still able to earn $0.98, even though incentive fees are well off what we think their long-term potential are, realizations in our opportunistic funds and private equity funds below potential. I think there's a lot of embedded upside in this firm. And you pointed out to one area, BPP, it's hard to put an exact date because it's going to be a function of sort of the pace of the recovery but we're pretty confident that commercial real estate over time recovers and that foundation is starting to come into place.

Ken Worthington: Thank you very much.

Moderator: We'll go next to Ben Budish with Barclays.

Ben Budish: Hi. Good morning and thanks for taking the question. I wanted to follow up on I think Dan's question earlier on the margins. Just a couple of kind of housekeeping items, maybe from Michael. On the fee related performance comp ratio, it looks like that has been sort of trending. It was a bit lower in the quarter than we expected. It looks like it's been a little bit volatile over the last year or so versus just sort of, you know, 40% range we tend to expect so any, any color there. And then sort of on the same lines, the stock based comp stepped up a little bit in the quarter. Just curious how if we should be thinking about that trending throughout the rest of the year. Thank you very much.

Michael Chae: Sure. Ben, I think, on the margins, on the fee related performance revenues, there is variability over time, but I think it's important to point out, you know, as a practical matter, we think about sort of fee revenues and comp holistically on a business by business basis. And so, and that gives us the ability, I think, to manage that, I think thoughtfully over time. So you'll see variability over the long run, FRPR margins, are aligned with the firm margin overall. But in the near term, you will see that move around based on the fact that we manage things holistically, I think for the benefit of the firm and shareholders. On equity-based comp, I think when you step back, there is seasonality in the first quarter around that line item, and sort of, movements between, say Q4 of last year and Q1 are affected by that, as well as other puts and takes. But if you sort of step back and look at the kind of growth trajectory, in Q1, it grew about 19% year over year. That's lower than the 2023 overall growth rate, which was 23%. That, in turn, was about half the growth rate of 2022 overall. And so we do expect, you are seeing this move lower over time., given sort of stable grant levels and we think that's a positive.

Ben Budish: Got it. Thank you very much.

Moderator: Thank you. We'll go next to Steve Chubak with Wolfe Research.

Steve Chubak: Hi. Good morning.

Weston Tucker: Morning, Steve.

Steve Chubak: So it was encouraging to hear the positive commentary on private credit deployment despite the reopening of public or syndicated markets. But given the increased competition for deals, you noted credit spreads are tightening, high levels of credit dry powder. Curious if you're seeing any tangible signs or evidence of credit underwriting standards potentially growing more lax and how that could dampen the pace of deployment across the credit platform.

Jon Gray: It's a good question.

[Audio cuts out]

Moderator: Please standby as we reconnect our speakers.

Jon Gray: …obviously very high multiples. Today, in the first quarter, on our direct lending the average loan to value was 44%. And now part of that, of course, is driven by the fact that interest costs to have coverage given a high base rate, there's only so much debt you can bear. So we're definitely not seeing, you know, reckless levels in any way in terms of what we've seen in terms of loan to value. Spreads have come down but on direct lending today are probably 500 over still pretty good by historic standards. Interestingly, liquid markets have tightened far further. So if you look at investment grade or high yield, we've seen much more movement there. So we still see this as a sector where the risk return for lending money is quite favorable. You know, if you're earning 500 over a base rate today, that's five and a half plus upfront fees, you're earning, you know, 11.5% on an un-levered basis, if you put a little leverage, better than that. So the risk return to us still feels compelling. You know, some sponsors*…[audio cuts out]…*more risk for the common equity, not the capital structure. So overall we have not seen signs of excess. And there's pretty good discipline in the market. And that gives us a lot of confidence.

Michael Chae: And Jon I'd just chime in on that. Two things: one, to put a fine point on Jon's point about 44% loan to values. What that obviously means is, because these are mostly sponsored transactions with new equity being invested, that 56% of the capital structure on a new deal is being put up with cash equity junior to this debt from high quality sponsors. So that is sort of another dimension to the risk reward here. And then on default rates, as I mentioned in my remarks, you know, less than 40 basis points for our business in the first quarter. There is, we are demonstrating because I think a couple of years ago there were some concern in the marketplace about what would happen with default rates for folks like us, there is differentiation. There is outperformance depending on the borrower selection and the individual private credit player. And so we're operating at a fraction, I think, of the overall market default rate which is normalizing. So, that's while being a leader in deploying capital in private credit.

Steve Chubak: Great color. Thanks for taking my question.

Moderator: Thank you. We'll go next to Brennan Hawken with UBS.

Brennan Hawken: Good morning. Thanks for taking my question. Just to, on real estate. One housekeeping and one forward-looking. Can you touch on the impact of the rate hedge in BREIT in the first quarter and April to date. And then, more on the forward-looking side, I appreciate the comments on supply in real estate. You know, but given that rates have actually started to back up and, sure, long rates are a little off the peak, but not by much. You know what drives the confidence in real estate bottoming? Wouldn't we need the cap rates to move up as much as base rates or close to as much as base rates moved up in order to draw that demand into the market?

Michael Chae: Yeah. Brennan, first, just on the data question. In terms of the impact of the swaps, it was about a point out of the 1.8% net performance for BREIT.

Jon Gray: And then on cost of capital, certainly a rising ten-year, not helpful. 15ut I think it’s important to put it in the context. As you noted, it’s lower than it was in October, but also debt capital being so important. So if you went back to October, it was extremely difficult to borrow money. Spreads were much wider, and banks were very reluctant to lend in the space. In the first quarter, as I noted, we've seen a five-fold increase in CMBS issuance. So, the fact that debt capital is more available and the cost is meaningfully lower because of the spreads, not as much the base rates, that's a helpful sign. So, it is more positive than it was six months ago. Backing up ten-year Treasury, as I noted, not helpful. But the fact that overall, it does feel to us at some point here, the Fed is going to bring rates down. There will be some downward pressure. That should be helpful. But the cost of capital overall coming down is helpful. And that's why we're seeing, even today, despite the back up in rates, more folks showing up to buy assets than certainly we saw six months ago.

Brennan Hawken: Thanks for that color.

Moderator Thank you. We'll go next to Bill Katz with TD Cowen.

Bill Katz: Okay. Thank you very much for taking the question. Just coming back to the opportunity in global wealth management. I was wondering if you could talk a little bit about where you're seeing the volume coming from to the extent you get that kind of granularity from the distributors? And then secondly, just given the tremendous focus on many of your peers into the space, just sort of wondering how you see that competitive environment unfolding as we look ahead. Thank you.

Jon Gray: So, Bill, we see demand pretty broad based. Obviously, we have a lot of strength in the U.S., with the biggest distribution partners. We've been at this, as a reminder, for a very long time. We've got a lot of relationships with financial advisors and their underlying customers. The performance of our drawdown funds, the performance of BREIT, BCRED has created a lot of goodwill that we're able to tap into. And so I would say it's broad based in the U.S. We are seeing strength overseas as well. Japan is a market where we certainly have seen more openness to our products, and we've had success there. Historically, some of the markets more tied to China, Hong Kong, Singapore are a little slower today, but we've had strength in those markets over time also. And Europe, I'd say is an emerging market as is Canada. So I think it's a global story. It's still primarily U.S., but it's growing. And within the U.S. what's interesting is we're still if you look at the penetration of financial advisors, still in the very early days, really a small percentage are allocating to alternatives. And we think that can broaden quite significantly as these products deliver for clients, as they begin to recognize the benefit of alternatives, trading some liquidity for higher returns. So we think there's a lot of room to grow and the fact that we have 300 plus people on Joan Solotar's team, we've got this very powerful brand, we've had strong performance. All of that I think bodes well for us and makes us a differentiated player in this space.

Moderator: Thank you. We'll go next to Brian McKenna with Citizens JMP.

Brian McKenna: Great. Thanks. Good morning everyone. I believe you've recently hired a senior data exec to leverage AI across your private equity portfolios. So can you talk about your approach to leveraging data and AI across your portfolios and what that might mean for additional value creation over time? And then can you also talk about how you leverage data on the deployment front? I'm assuming a lot of the data you have across the entire platform gives you insight into emerging trends globally. And so how does all this translate into, you know, where you ultimately invest?

Jon Gray: So AI is obviously hugely important for our business, for the global economy. I would just frame this by saying, you know, we set up our data science business back in 2015. We've got more than 50 people on that team today. We have focused historically on predictive AI, which is basically numbers in, numbers out. So you could look at a company, and you could look at their, you know, pricing history, and you could do much more sophisticated revenue management than human beings could do. Similarly, in terms of staffing. And we've been using that as a tool for investing for quite some time now and will continue to do this. And we've been pushing it out to some of our portfolio companies. I would point out also that Steve personally, with his investments at MIT and Oxford, has been a leader thinking about AI, and that has, I think, pushed the firm to try to do more in this space because we had more recognition that something profound was happening here. I would say on the generative AI front, it's still very early days you know, in terms of applications. The ability to take language and, you know, put that into the machine, produce language or videos, I think it will have a powerful impact but that's going to take a bit of time. And what I think it'll do most is impact customer engagement for many of our companies. I think it will also, on the content side, help in software development and media development. And we're working by hiring data scientists, working with our teams. We hired a senior executive, recently. But I'd still say on the generative side, it's early days. Now on the investing overall, what we've tried to do is focus on the infrastructure around AI, and that is primarily data centers. And by going out there and investing in $50 billion of data centers that we own or have under construction, and another $50 billion in development pipeline globally, which Steve talked about, that really is the infrastructure. We're also spending a lot of time on power, which is a key necessity to build these data centers. And then we've made a number of investments, around cloud companies, contractors building these, the whole ecosystem. So as a firm, we're trying to spend a lot of time. It's early days for us. The biggest impact has been around the infrastructure, but we're working hard to find ways to help our companies be more competitive. And we're certainly trying to make our investment process better so an area definitely worth focusing on.

Brian McKenna: Thank you, Jon.

Moderator: Thank you. We'll go next to Patrick Davitt with Autonomous Research.

Patrick Devitt: Hey, good morning everyone. Thanks. So there's been increasing regulatory focus on the more illiquid stuff, the ABS that you and others are originating for insurance balance sheets, and to what extent those should have a higher risk weighing. I know insurance regulators work very slow, but what are you hearing from your 18 big insurance clients on that issue? And are you seeing this concern factor into new business conversations with that channel at all? Thank you.

Jon Gray: So I think there's a lot of discussion around these areas. A lot of the focus has been around securitizations or synthetic securitizations creating different ratings than a direct rating. A lot of the activities though that we've been talking about here have been literally doing private assets, investment grade. And very similar to what insurance companies have been doing in commercial mortgages and private placement debt for decades. What we're really doing is taking that model of senior, what we believe safe debt, on average A-rated, in infrastructure, in all forms of asset-based finance, in residential finance, and putting that directly on insurance company balance sheets. And I think regulators and participants see that as generally a good thing because it's generating higher returns. There's a little less liquidity, although I would point out when you look at, you know, things like ABS bonds, there's not a lot of liquidity as it is, but there is a little less liquidity. But the risk profile of the assets is very much in line, if not safer, than what our clients have done historically. So I think there's going to be more scrutiny. As you know, in the insurance space, we made a conscious choice. We're not an insurance company. We really see ourselves more like BlackRock or PIMCO. What they do for liquid assets for insurance companies, we're doing a similar dynamic for insurance companies and private assets, and we think what we're doing is very sound. It's safe. It generates, on average, 200 basis points of higher return than comparably rated liquid assets. We think this is a good thing for policyholders. So, we think there will be a lot of dialogue with regulators, but the activities we're focused on, we think will be well received over time.

Weston Tucker: Great, Katie. Thank you. Thanks everyone.

Moderator: I'd like to turn the call back over to Weston Tucker for any additional comments.

Weston Tucker: Thanks everyone for joining us today and look forward to following up after the call.

[End of Audio]